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ANNUAL REPORT 1973

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COLDSTREAM MINES LIMITED

COLDSTREAM MINES LIMITED

Interim Report

SIX MONTHS ENDED

JUNE 30, 1973

Coldstream Mines Limited

TO THE SHAREHOLDERS

Net income of your Company and its consolidated subsidiaries, including earnings of International Mogul Mines Limited, accounted for on the equity method, were $1,407,000 or $0.48 per share for the six months ended June 30, 1973 compared to $466,000 or $0.23 per share for the same period in 1972.

INTERNATIONAL MOGUL MINES LIMITED

Your Company now owns 38.2% of the issued common shares of International Mogul as a result of issuing 852,883 treasury shares for the purchase of an additional 194,185 shares of that Company. International Mogul had the highest earnings in its history during the six-month period ended June 30, 1973. Its consolidated net earnings amounted to $4,023,000 or $1.54 per share for the period compared with $1,518,000 or $0.58 per share for the same period in 1972.

The improvement in profit performance, despite rising mining and other costs, is attributable to several factors. The tonnage milled by Mogul of Ireland, International Mogul's 75%-owned subsidiary, was maintained at normal levels during the period whereas the tonnage milled during the same period in 1972 was considerably less than normal because of a minor surface plant fire and labour unrest. In addition, zinc and lead prices have increased significantly over the prices prevailing during the first half of 1972. In July 1973, the producer price for zinc was raised from £205 to £220 per metric ton and the benefit of this increase will be felt over the remainder of the year. It is expected that strong prices for zinc and lead will continue.

Included in the earnings of International Mogul for 1973 are the results of operations of the Pine Vale Group, a group of effectively controlled Australian Companies.

Surface diamond drilling continues on the property of Mogul of Ireland. Currently three drills are working and some encouraging results have been obtained.

Exploration activities for minerals and gas and oil by International Mogul and its controlled subsidiaries proceeded during the period on a normal basis.

Beaver Explorations Australia N.L., one of the Pine Vale Group, has commenced drilling for oil and gas on an off-shore permit on the North West Shelf of Australia and expects to commence drilling soon on a permit in Papua.

During May, International Mogul issued 6% Cumulative Redeemable Convertible Preference Shares for net cash proceeds of $5,603,000. These funds, together with the cash flow now being generated by Mogul of Ireland, puts International Mogul into a position where it can actively pursue significant acquisitions. Investigations are continuing and some progress has been made towards achieving the objective of enlarging International Mogul's participation in the development of natural resources.

CITY ASSOCIATED ENTERPRISES LIMITED

The results of this 67%-owned subsidiary which operates retail stores and a dry-cleaning business in the Bahamas, have been consolidated into your Company's earnings. The sales for the six-month period were less than those for the corresponding period in 1972 which, together with increased expense, has resulted in a decrease in profits. The Bahamas became an independent country on July 10, 1973 and we continue to believe that the economy of the country will eventually improve which will be reflected in profits of City Associated. Notwithstanding adverse conditions during the past few years, City Associated and its subsidiary, Spotless Cleaners, have continued to make profits and have reduced their indebtedness substantially. Management is hopeful that a dividend policy for City Associated can be established next year.

INTERSCAN LIMITED

This 75%-owned subsidiary as at June 30, 1973 should have a very successful 1973 in marketing a range of computer input systems in Europe. The results to date have not been consolidated into your company's earnings but management believes that it will be appropriate to consolidate these figures at the end of 1973 in view of the corporate changes des-

cribed below. Interscan incurred a consolidated loss for the six-months ended June 30, 1973 about equal to that budgeted for the period. However, orders and letters of intent are now on hand amounting to in excess of $6,000,000 of which approximately $5,000,000 are for deliveries in 1973 and the balance in 1974. These, together with orders now in advanced stages of negotiation, indicate that Interscan's computer input operations should generate a profit of about $950,000 for the last six-months of 1973 and an overall profit of about $600,000 for the calendar year 1973. The Company's present position is dramatically improved over previous periods and our continuing support of this Company has been justified.

In the 1972 Annual Report of Coldstream, we reported that . . . "Alternative methods of financing Interscan are now being considered which will enable some recovery of your Company's investment in the near future . . .". These efforts are still continuing but we have recently completed a transaction which we believe considerably strengthens Interscan and, in effect, puts your Company into a position where its interest in Interscan is convertible into marketable securities of significant value.

As of August 1973, your Company obtained control of GCL Graphic Communications Limited ("GCL"), a Company holding the distributorship rights for a family of graphic transceivers or facsimile transmission devices marketed under the name "Dex". The manufacturer is Graphic Sciences, Inc. in Danbury, Connecticut, U.S.A. The Dex machines are capable of sending or receiving documents, photographs, or other written or graphic material to or from a similar machine requiring only an ordinary telephone for transmission and depending on a conventional wall plug for power. The local or long distance telephone systems can be used and the units can be accoustically coupled to the telephone by merely placing the telephone receiver in a cradle enclosed in the machine.

In May 1973, GCL entered into a three-year contract with the Trans-Canada Telephone System (which includes the eight major telephone companies) under which the Trans-Canada Telephone System members agreed to purchase an aggregate of 400 machines from GCL during the first year of the contract. The members are not obliged to purchase any other machines. GCL is the exclusive source of

Dex machines in Canada and 430 machines have already been ordered by the Trans-Canada Telephone System. The Trans-Canada Telephone System is marketing the Dex machine under the name Faxcom and has already launched an aggressive marketing campaign with the slogan . . . "Don't mail it. Phone it.".

In addition to units sold to the Trans-Canada Telephone System, GCL will, itself, be renting and selling units directly to other customers.

As part of the transactions mentioned above, the exclusive distribution rights for Dex products in the United Kingdom and the Republic of Ireland were also obtained.

The addition of the Dex line of products to the range of equipment sold in the United Kingdom should eventually provide a constant flow of cash and profits for the Interscan Group without any significant increase in senior management and administrative overheads.

We are convinced that the concept of facsimile transmission is on the threshold of general acceptance and that Interscan's entry into the market is timed right to make a significant impact on markets in Canada and the United Kingdom with a product whose competitive position cannot have any more positive endorsement than its adoption by the Trans-Canada Telephone System.

The transaction outlined above also provides a base to Interscan which can be attractive for further financing and expansion and the means whereby Interscan's interest in its marketing subsidiaries can become assets with quoted market values. The shares of GCL trade over the counter in New York. It is planned to proceed with a listing of the shares of GCL on the Toronto Stock Exchange as soon as this is appropriate.

The Coldstream-Interscan-GCL agreement is complex but, essentially, provides as follows:

1. Interscan has sold its European operations to GCL in consideration for that number of shares of GCL which will represent 61% of the GCL shares outstanding after giving effect to all potential dilutions under outstanding warrants, employee share purchase options and convertible debentures issued by GCL. The number of shares issued by GCL was 1,311,353. These shares, together with a further 100,000 shares acquired independently by

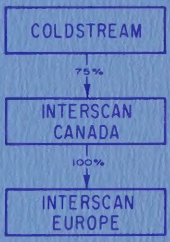
Interscan, represent 81.29% of the outstanding GCL shares immediately following the transaction. (66% after giving effect to all potential dilutions and the acquisition of the 100,000 shares.)

2. In addition, the indebtedness of the Interscan subsidiaries to Interscan Canada was adjusted to $1,500,000 from $1,538,000 to be represented by 7% secured Demand Debentures. These Debentures are guaranteed by GCL and GCL has agreed to purchase $1,000,000 of the Debentures at any time when called upon to do so on the basis of one share for each $3 of principal amount of Debentures sold. Accordingly, by exercising this put, Interscan has the right to acquire a further 333,333 shares of GCL.

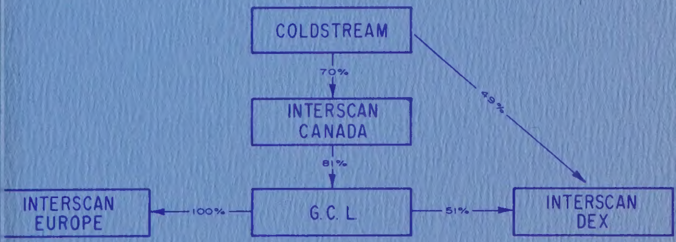
3. The U.K. distributorship rights for Dex equipment will be owned by a separate Company to be known as Interscan-Dex Limited which will be 51%-owned by GCL and 49% by Coldstream.

4. Coldstream has agreed to, from time to time, when called upon by the Directors of GCL, advance directly or indirectly up to $1,600,000 to GCL and up to $1,000,000 to Interscan-Dex.

BEFORE G.C.L. ACQUISITION



AFTER G.C.L. ACQUISITION



So that shareholders may more easily understand the present corporate relationships existing after these transactions, we show opposite the before and after corporate charts.

Since the cost of Interscan's investment in its non-Canadian subsidiary Companies was nominal and the value put on the 1,311,353 shares issued by GCL to purchase these investments was $2,955,545, there is a very significant profit made by Interscan on the transactions. However, it is management's present intention not to take up this profit in the accounts of Coldstream but to offset it on consolidation against the large goodwill item which will appear on the consolidated balance sheet of GCL as a result of the excess of the value of the shares issued by that Company over the net book value of the Interscan assets. Nevertheless, you should be aware of the fact that, as a result of this transaction, Coldstream's investment in Interscan has changed dramatically in nature and that the underlying value of the shares of GCL and particularly the potential in the facsimile transmission field puts your Company in a strong position.

CONCLUSION

The investments of your Company reported upon above, in relative terms are all doing well. During the next six months to a year we expect the Interscan-GCL Group to make great strides and become a more profitable and very significant asset of your Company.

Yours very truly,

F. GERALD TOWNSEND,
President.

August 15th, 1973.

Coldstream Mines Limited

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

Six Months Ended June 30, 1973
with comparative figures for 1972

	1973	1972
Sales	$1,131,000	$1,179,000
Operating expenses	1,018,000	985,000
Income from retail operations	113,000	194,000
Equity in net income of effectively controlled companies	1,487,000	473,000
	1,600,000	667,000
Administrative and general expenses	62,000	55,000
Interest on long-term debt	17,000	19,000
Other interest, net	61,000	38,000
Depreciation	19,000	23,000
	159,000	135,000
Income before interests of minority shareholders	1,441,000	532,000
Interests of minority shareholders in net income of subsidiaries	34,000	66,000
NET INCOME FOR THE PERIOD	$1,407,000	$ 466,000
EARNINGS PER SHARE	$ 0.48	$ 0.23

NOTE:

Reclassification and Restatement

Certain figures have been reclassified and/or restated on the basis of 1973 consolidated financial statement presentation. In particular, earnings for 1972 have been restated to show the Company's equity interest in the earnings of International Mogul Mines Limited.

Coldstream Mines Limited

CONSOLIDATED STATEMENT OF SOURCE AND APLICATION OF FUNDS

(unaudited)

Six Months Ended June 30, 1973

with comparative figures for 1972

Source of Funds	1973	1972
Income before interests of minority shareholders	$1,441,000	$ 532,000
Items not involving current funds		
Depreciation	19,000	23,000
Equity in net income of effectively controlled companies	(1,487,000)	(473,000)
	(27,000)	82,000
Dividend received from International Mogul Mines Limited	124,000	
Issue of common shares	150,000	
Bank loan	250,000	
	497,000	82,000
Application of Funds		
Increase in advances to subsidiary, not consolidated	83,000	39,000
Investment in other shares		97,000
Dividend paid by subsidiary company to minority shareholder	20,000	20,000
Purchase of fixed assets	3,000	12,000
Reduction of long-term debt	60,000	81,000
Deferred exploration and development		25,000
	166,000	274,000
Increase (decrease) in working capital position	331,000	(192,000)
Working capital deficiency at beginning of period	2,634,000	2,462,000
Working capital deficiency at end of period	$2,303,000	$2,654,000

Printed in Canada.

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ANNUAL MEETING

The Annual Meeting of
Coldstream Mines Limited
will be held on Thursday, June 27,
1974 at 2:30 p.m. in Committee Room No. 4,
11th Floor, 11 Adelaide Street West,
Toronto, Ontario.

Directors' Report to Shareholders

Your Directors are pleased to present your Company's Annual Report for the year 1973.

Consolidated net income of your Company for 1973 amounted to $2,825,000 or $1.07 per share. This is before net extraordinary losses of $548,000, or $0.21 per share. In 1972 consolidated net income, before an extraordinary gain of $53,000 or $0.03 per share was $1,177,000 or $0.58 per share.

You will notice that the 1972 and 1973 figures which appear on the financial statements are significantly different. This is due to the inclusion in the 1973 figures of the consolidated statement of Interscan Limited and GCL Graphic Communications Limited. Your Company acquired control of GCL through the sale to GCL of the European operation of Interscan Limited.

The Company now has three major investments: International Mogul Mines Limited, GCL Graphic Communications Limited, and City Associated Enterprises Limited. To provide you with information concerning these companies, we have included in this Report excerpts from the published Annual Reports of International Mogul and GCL, as well as the consolidated financial statements of International Mogul and GCL, and general comments on City Associated.

International Mogul had its best year ever and the ore reserves of Mogul of Ireland were extended. Although City Associated made a profit, it was disappointingly low and steps have already been taken to increase the 1974 profits and cash flow through reductions in inventory and overheads. It is apparent that the recovery of the Bahamas to its former economic position will be slow. GCL Graphic Communications Limited is a strong marketing company in the communications field and is now operating profitably. The present backlog of orders in the United Kingdom and Continental Europe indicate a successful and profitable 1974.

Your Company is fortunate in the calibre of management and staff operating the companies effectively controlled by Coldstream. We remain confident in the future of your Company.

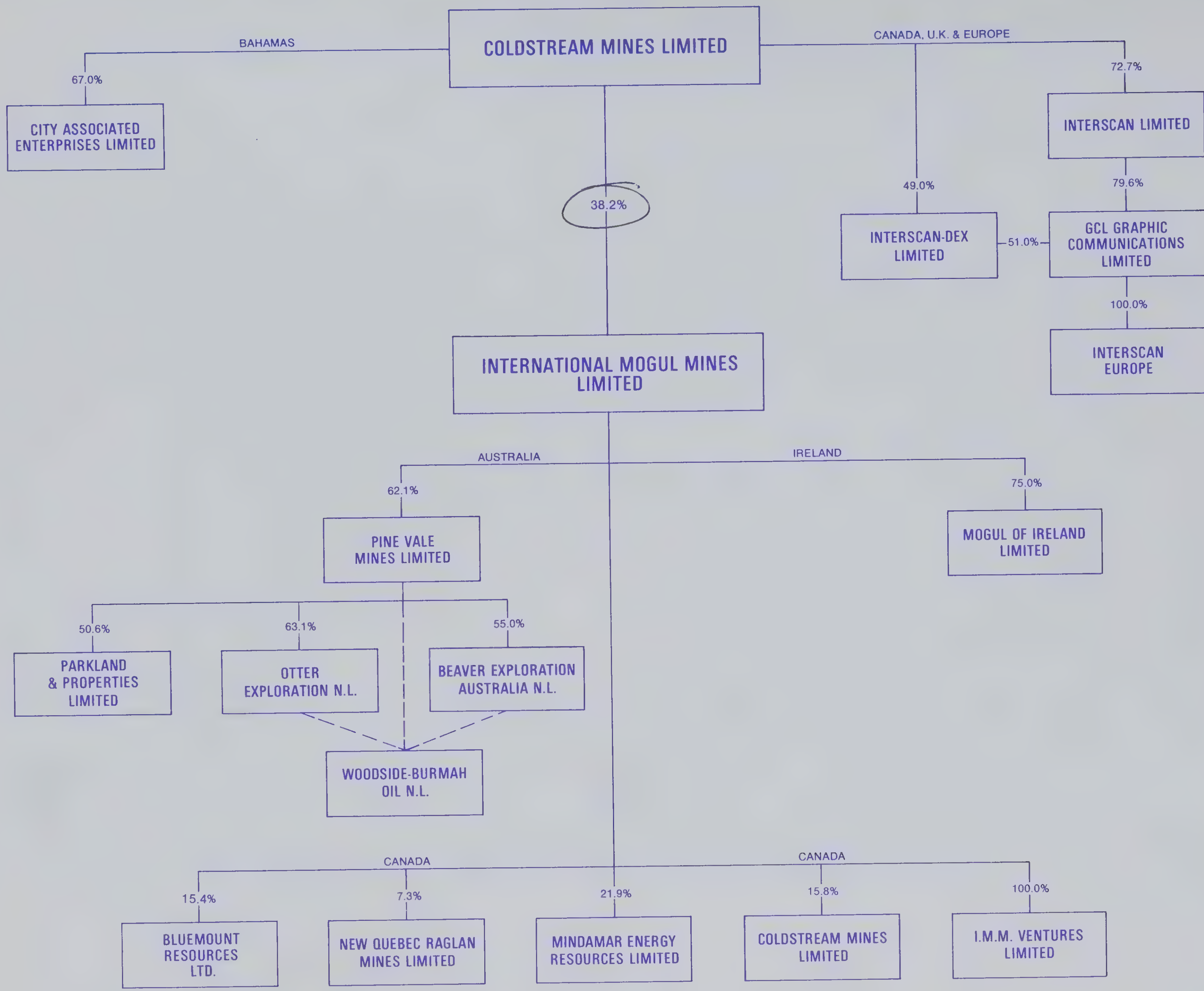
On behalf of the Board of Directors,

Chairman of the Board.

President.

Toronto, Ontario,
May 27, 1974.

PRINCIPAL COLDSTREAM CONTROLLED AND ASSOCIATED COMPANIES



COLDSTREAM MINES LIMITED
(Incorporated under the laws of Ontario)
and subsidiary companies

Consolidated Balance Sheet

December 31, 1973
(with comparative figures at December 31, 1972)

Assets	**1973**	**1972**
CURRENT ASSETS		
Cash and short-term deposits	$ 1,063,000	
Accounts receivable	5,516,000	$ 159,000
Inventories, at lower of cost and replacement value	2,538,000	858,000
	9,117,000	1,017,000
INVESTMENTS (note 2)	17,510,000	14,787,000
FIXED ASSETS (note 3)	1,719,000	384,000
MINING PROPERTIES AND DEFERRED EXPLORATION, at cost	779,000	830,000
OTHER ASSETS, at cost	231,000	
GOODWILL (note 1)	4,823,000	2,176,000
	$34,179,000	$19,194,000

Approved by the Board:

"D. W. Knight", Director

"R. D. Bell", Director

Liabilities	1973	1972
CURRENT LIABILITIES		
Bank advances, secured (note 4)	$ 7,479,000	$ 2,441,000
Accounts payable and accrued liabilities	3,713,000	1,041,000
Current portion of long-term debt	222,000	169,000
	11,414,000	3,651,000
LONG-TERM DEBT (note 5)	1,752,000	
INTERESTS OF MINORITY SHAREHOLDERS (note 6)	1,378,000	783,000

Shareholders' Equity

CAPITAL STOCK		
Authorized — 5,000,000 shares without par value		
Issued — 2,923,295 shares (note 7)	15,094,000	12,302,000
RETAINED EARNINGS	4,541,000	2,458,000
	19,635,000	14,760,000
	$34,179,000	$19,194,000

Auditors' Report

To the Shareholders of COLDSTREAM MINES LIMITED.

We have examined the consolidated balance sheet of Coldstream Mines Limited and its subsidiary companies as at December 31, 1973 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 28, 1974

Thorne Gunn & Co.
Chartered Accountants.

COLDSTREAM MINES LIMITED
and subsidiary companies

Consolidated Statement of Income and Retained Earnings

Year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
REVENUE		
Sales, rental, maintenance and other income	$10,563,000	$ 2,464,000
EXPENSES		
Cost of sales, supplies, maintenance, selling general and administrative expenses	9,875,000	2,447,000
Depreciation and amortization (note 3)	208,000	46,000
Interest on long-term debt	91,000	24,000
Deferred exploration on oil and gas property abandoned	54,000	
	10,228,000	2,517,000
	335,000	(53,000)
Equity in income before extraordinary items of International Mogul Mines Limited (note 2)	2,889,000	1,360,000
Income before interests of minority shareholders, income taxes and extraordinary items	3,224,000	1,307,000
Interests of minority shareholders	133,000	130,000
	3,091,000	1,177,000
Income taxes	266,000	
INCOME BEFORE EXTRAORDINARY ITEMS	2,825,000	1,177,000
Extraordinary items (note 8)	(548,000)	53,000
NET INCOME FOR THE YEAR	2,277,000	1,230,000
Retained earnings at beginning of year	2,458,000	1,228,000
	4,735,000	2,458,000
Equity in preference share issue expense and prior years' income taxes adjustment of International Mogul Mines Limited (note 2)	194,000	
RETAINED EARNINGS AT END OF YEAR	$ 4,541,000	$ 2,458,000
EARNINGS PER SHARE		
Before extraordinary items	$1.07	$0.58
Net income for the year	$0.86	$0.61

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
SOURCES OF WORKING CAPITAL		
From operations		
Net income for the year	$ 2,277,000	$ 1,230,000
Items not involving the use of working capital		
Depreciation and amortization	208,000	46,000
Write-down of investments in other shares to estimated net realizable value	150,000	
Deferred exploration on oil and gas property abandoned	54,000	
Net interests of minority shareholders	84,000	130,000
Equity in net income of International Mogul Mines Limited	(2,182,000)	(1,413,000)
Other		(17,000)
	591,000	(24,000)
Share capital issued (note 7)	2,792,000	
Issue of shares of Interscan Limited to a minority shareholder	225,000	
Increase in long-term debt	724,000	
Dividends received from International Mogul Mines Limited	249,000	
Other	22,000	
Cost of investment sold		281,000
	4,603,000	257,000
APPLICATIONS OF WORKING CAPITAL		
Cost of additional investment in International Mogul Mines Limited	2,642,000	
Cost of acquisition of Interscan Limited and its subsidiaries adjusted for working capital deficiency of $871,000 at effective date of acquisition	901,000	
Fixed assets	421,000	32,000
Other assets	199,000	
Dividend paid by subsidiary to minority shareholder	40,000	72,000
Reduction in long-term debt	31,000	169,000
Investment in other shares and advances	26,000	140,000
Other	6,000	109,000
	4,266,000	522,000
Increase (decrease) in working capital position	337,000	(265,000)
Working capital deficiency at beginning of year	2,634,000	2,369,000
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ 2,297,000	$ 2,634,000

COLDSTREAM MINES LIMITED
and subsidiary companies

Notes to Consolidated Financial Statements

December 31, 1973

1. Basis of Consolidation

(a) Subsidiaries Consolidated

The consolidated statements include all of the Company's subsidiaries, the principal ones being:

Stream Bahamas Limited	100% owned
Interscan Limited	72.7% owned

(b) Foreign currency translation

In the accompanying financial statements, current assets, current liabilities and long-term debt have been translated at the prevailing rates of exchange as at December 31, 1973 and 1972 respectively. Other assets have generally been translated at the average rate of exchange for the years in which they were acquired. Income and expense items have been translated at the average rate of exchange during each year, except that depreciation and amortization are translated at the same rates as related assets.

(c) Stream Bahamas Limited

Stream Bahamas owns 67% of City Associated Enterprises Limited which in turn owns 75% of Spotless Cleaners Limited.

(d) Interscan Limited

On June 29, 1973 the Company signed an agreement with Interscan Limited (Interscan) and GCL Graphic Communications Limited (GCL) which provided that:

1) GCL issue 1,311,353 shares to Interscan representing a 61% fully diluted interest in GCL.

2) GCL acquire all of the issued and outstanding shares of the following companies (Interscan Group) from Interscan:

Intercontinental Data Systems Limited

Interscan Data Systems, A.G., ZUG

Interscan Data Systems (U.K.) Limited

Interscan GmbH

3) GCL guarantee a $1,500,000 7% debt of the Interscan Group of which $1,000,000 may be converted into shares of GCL at $3 per share.

4) The Company provide, directly and indirectly, financing up to $1,600,000 for the Canadian operations of GCL and up to $1,000,000 for the United Kingdom operations of Interscan-Dex Limited a company owned 51% by GCL and 49% by the Company.

As a result of the above transaction and a further purchase of 100,000 shares, Interscan acquired an 81.3% interest in GCL and retained an 81.3% equity interest in the Interscan Group, previously wholly owned.

In addition to the financing being provided to GCL, the Company agreed on March 26, 1973 to provide Interscan and/or the Interscan Group of Companies with financial support. Since the amount of such financial support at December 31, 1973 exceeds the aggregate amount agreed upon, negotiations are in progress to complete a new financing agreement.

(*e*) *Goodwill*

Goodwill represents the excess of cost of subsidiaries over book values on effective dates of acquisition as follows:

Bahamian subsidiaries	$2,176,000
Interscan Limited and its subsidiaries	2,647,000
	$4,823,000

Interscan Limited, GCL Graphic Communications Limited and subsidiary companies are included in the accounts effective June 30, 1973. Details of the acquisitions which were accounted for on a purchase basis are as follows:

Consideration	
Share capital of Interscan Limited issued	$ 225,000
Cash	30,000
Cost of original investment in Interscan Limited	422,000
	677,000
Excess of liabilities over book value of assets acquired, at effective date of acquisition	1,970,000
Goodwill	$2,647,000

2. Investments

Investments are as follows:

	1973	1972
International Mogul Mines Limited	$17,285,000	$12,903,000
Other shares and advances at lower of cost or net realizable value	225,000	349,000
Subsidiaries not consolidated, at cost		1,535,000
	$17,510,000	$14,787,000

International Mogul Mines Limited — effectively controlled company

The investment in International Mogul represents a 38.2% interest in the issued common shares of that company (1972, 30.7% interest). This investment has a carrying value on an equity accounting basis of $17,285,000 (1972, $12,903,000) and had a quoted market value of $8,711,000 and $10,318,000 as at December 31, 1973 and 1972 respectively.

In 1972 the Company commenced accounting for this investment on an equity basis and the Company's share of net income of International Mogul for 1973 amounting to $2,182,000 (1972, $1,413,000) has been included on the consolidated statement of income and a like amount has been added to the carrying value of the investment.

The carrying value of the investment exceeds the underlying equity in the net book value of that company by approximately $3,000,000 at December 31, 1973 ($2,900,000 December 31, 1972). The Company is continuing to carry this excess in the value of the investment, as management is of the opinion, that the value of International Mogul is greater than that indicated by the underlying equity in its net book value.

3. Fixed Assets

(*a*) *Summary*

	1973	1972
In the Bahama Islands, at cost		
Buildings, equipment and leasehold improvements	$ 625,000	$ 607,000
In Canada, at cost		
Graphic communication equipment, office equipment and leasehold improvements	1,219,000	
In Europe, at cost		
Graphic communication equipment, computer input equipment, automotive equipment and office equipment	612,000	
	2,456,000	607,000
Less accumulated depreciation	737,000	223,000
	$ 1,719,000	$ 384,000

(*b*) *Depreciation Policy*

These assets are being depreciated on a straight line basis at the following rates:

Buildings	2½%
Leasehold improvements	10% to 20%
Equipment	6⅔% to 33½%

4. Bank Advances

The bank advances, and long-term debt except where noted, are secured by a pledge of substantially all of the accounts receivable, inventories, investments and fixed assets of the Company and its subsidiaries.

5. Long-Term Debt

Long-term debt consists of:	1973	1972
Bank loan maturing in 1976	$ 290,000	
Loans from associated companies	1,585,000	
7% notes payable, unsecured, maturing in 1975	99,000	
8½% bank loan		$ 134,000
6½% promissory notes		35,000
	1,974,000	169,000
Less current portion included in current liabilities	222,000	169,000
	$ 1,752,000	nil

Interest on the bank loan and loans from associated companies is based on the Euro-dollar six month rates to be adjusted semi-annually.

6. Interests of Minority Shareholders

	1973	1972
Minority interests are attributable to the minority shareholders of:		
City Associated Enterprises Limited	$ 674,000	$ 718,000
Spotless Cleaners Limited	72,000	65,000
GCL Graphic Communications Limited	632,000	
	$ 1,378,000	$ 783,000

7. Capital Stock

	No. of shares	Consideration
Balance at beginning of year	2,020,412	$12,302,000
Issued for cash	50,000	150,000
Issued to acquire additional 7.5% interest in common shares of International Mogul Mines Limited	852,883	2,642,000
Balance at end of year	2,923,295	$15,094,000

8. Extraordinary Items

	1973	1972
Equity in extraordinary income (losses) of International Mogul Mines Limited	$ (707,000)	$ 53,000
Write-down of investments in other shares to estimated net realizable value, less interests of minority shareholders of $49,000	(101,000)	
Income tax reductions arising from application of losses of prior years	260,000	
As shown on consolidated statement of income	$ (548,000)	$ 53,000

INTERNATIONAL MOGUL MINES LIMITED

Excerpts from 1973 Annual Report — with Consolidated Financial Statements

The Year at a Glance

	1973	1972
Net income	$ 6,017,000	$ 4,604,000
Common shares issued and outstanding	2,608,097	2,607,112
Income per common share	$2.22	$1.77
Cash earnings per common share	$2.93	$2.45
Proven and indicated in place ore reserves (tons)	9,319,000	8,420,000
Ore grade — zinc %	6.48	7.05
— lead %	2.76	2.73
Common shareholders' equity	$37,267,000	$32,586,000
Per common share	$14.29	$12.50

"Consolidated net income for the year amounted to $7,867,000 or $2.93 per common share. This is before extraordinary losses of $1,850,000, or $0.71 per common share. In 1972, consolidated net income, before extraordinary items, was $4,431,000 or $1.70 per share. Income from extraordinary items in 1972 was $173,000 or 7¢ per share.

1973 was clearly a most significant year for your Company. It earned the highest profits ever, received the first dividends from Mogul of Ireland Limited, began a major entry into gas exploration and production in the U.S.A. and added approximately two years of life to the mine in Ireland by the discovery of additional ore reserves. We have gone some way towards achieving our objective of developing a solid earnings base to provide us with the continuing cash flow to sustain the already expanded programme of exploration and acquisitions in the mineral and oil and gas areas.

Revenue of Mogul of Ireland, a 75%-owned subsidiary, was again at a record level primarily because of the increased zinc and lead prices which were offset somewhat by increased costs. Net profit for the year of Mogul of Ireland was $9,913,000 compared to $6,109,000 the previous year. A dividend policy was adopted during the year and your Company received approximately $6,725,000 from this source during 1973.

One of the most encouraging aspects of the Irish operation has been the success of the drilling programme aimed at increasing our ore reserves. During 1973 the reserves increased by just over 1,800,000 tons to effectively add almost two years to the life of the mine. Exploration drilling is continuing in the vicinity of the mine to further increase ore reserves.

Your management was shocked by the announcement last September that the Irish government intended to take away the 20-year tax exemption from existing mining companies as of April 6th, 1974. Representations have been made to the Government and meetings held with the Minister of Finance.

A Bill has very recently been introduced by the Minister of Finance which would remove the tax exemption. Although accelerated capital cost allowances will be allowed for the unamortized portion of those costs, no additional taxation relief is offered in the Bill for existing producing mines. In fact, new mines will be treated more generously in regard to capital cost allowances than Mogul of Ireland will be, in the future. Although the Minister of Finance has given assurances that the taxes will only be applicable to profits earned subsequent to April 6, 1974 the peculiarities of the Irish tax system and the wording of the Bill as presently drafted would have the effect of levying a tax based on 1973 profits. However, we understand that the Minister has now acknowledged that an election will be available to mining companies to ensure

that no taxes will be payable on profits prior to April 6, 1974. A recent White Paper setting out proposed changes in general corporate taxation confuses the matter further and, technically, can be interpreted as permitting the double taxation of 1974 profits. As you can see, at this point in time, we are not in a position to advise you in any intelligent way as to the tax consequences in Ireland for 1974. This position is presently being clarified and representations are continuing to attempt to have the Government recognize the need for continuing and significant incentives for the mining industry. The taxes will be at an effective rate of approximately 50 per cent and will, of course, have a material impact on the future profits of Mogul of Ireland Limited.

We have continued to increase our percentage ownership in the Pine Vale Group of Companies in Australia. The present Government in that country has created uncertainty with regard to mineral, oil and gas exploration and production and has announced certain policies which have discouraged many companies from aggressively exploring in Australia. This, of course, has had the effect of depressing share prices of natural resource companies. However, the Pine Vale Group of Companies continues to be strong financially and is taking the opportunity of the lull in general exploration activity to step up its programme of property acquisitions and plans to be in an advantageous position to obtain financing and partners on a farm-out basis when conditions improve.

Since our initial investment in the nucleus of the Pine Vale Group in late 1971, we have built up an organization in Australia of over 50 people with the funds and expertise to make a very worthwhile contribution to the overall efforts of your Company to find and develop natural resources.

You will notice in the Consolidated Statement of Income and the Supplementary Financial Information that very substantial increases have taken place in the amounts of exploration expenditures in the Mogul Group. We are hopeful that this increased activity will eventually bear fruit.

In late 1973 your Company became actively engaged in the acquisition of gas production and royalties and in oil and gas exploration in the United States of America, mainly in the State of Texas. In addition, your Company indirectly pursued similar interest through its assistance in the financing of Mindamar Energy Resources Limited and the acquisition of about 22% of the issued capital of that company.

Further royalty interests have been acquired in 1974 and additional exploration opportunities have been taken up.

Certain royalty interests in Hemphill County, Texas which were purchased during 1973 and early 1974 for $2,145,000 are now considered to be of a value substantially less than the purchase price. The investment decision was based on representations made by the vendor to the Company and to reputable consultants retained by the Company. Recent investigations indicate that these representations were false. We are advised by counsel that on the basis of these representations, we have sound grounds for a claim to recover the investment from the vendor. Negotiations are presently continuing to settle this matter.

A major disappointment in early 1974 was the conclusion that the interests of your Company would be best served by the sale of the long-standing investment in The Grand Bahama Development Company, Limited. — — — — — However, we reluctantly had to accept the fact that unless we sold now at a modest loss, there was a good possibility that we would see no return on the investment in the foreseeable future. We believe that we can employ the proceeds from this sale much more effectively."

Mogul of Ireland Limited

"Operations in 1973 at your Company's 75% owned operating subsidiary, Mogul of Ireland Limited, provided close to the normal annual production rate being only slightly affected by mechanical problems experienced during mid year and reduced production during the summer vacation period. Operating profit amounted to $11,719,000. After deduction of interest, royalties, depreciation and amortization charges, the net profit realized was $9,913,000.

Exploration

During the year 70 surface diamond drill holes were completed comprising 32,547 feet. The 1973 drilling programme utilized an average of 3 machines with work being concentrated in the "B", "C" and "K" zones as well as in the Valley area. No surface drilling was done on the "S" zone. An underground drive is heading towards this zone and underground drilling is expected to commence about mid 1974.

Drilling on the down dip extension of the "B" zone has added significantly to ore reserves with further potential still to be tested. Drilling in the Valley area has indicated several mineralized zones which require further drilling to evaluate fully. While additional ore potential has been indicated in the "K" zone, the

nature of this deposit is such that considerably more detailed drilling will be required, both from surface and underground, to assess its overall potential. Results of drilling to date on the "C" zone have been of minor significance.

Ore Reserves

Total ore reserves in all classifications including dilution at year end were 9,319,000 tons grading 2.76% lead and 6.48% zinc, with silver in the order of one half ounce per ton. Reserves of the "B" zone are based on an independent evaluation by the consulting firm of James & Buffam. After the milling of 917,400 tons, ore reserves at year end showed an increase of 899,000 tons. A total of 1,816,400 tons of new ore was added to reserves during the year. Details of ore reserves are as follows:

Ore Body	Tons	% Lead	% Zinc
Upper "G" Zone	4,238,000	1.89	7.99
Lower "G" Zone	1,012,000	3.36	4.31
Total "G" Zone	5,250,000	2.17	7.28
"B" Zone	3,962,000	3.56	5.36
Total "G" and "B" Zones	9,212,000	2.77	6.45
Broken	107,000	2.33	8.80
Grand Total	9,319,000	2.76	6.48

Australian Operations

Australia — Pine Vale Group

"During 1973 and subsequent to the year end the Company purchased additional shares of Pine Vale Mines Limited and now holds 62.1% of the issued shares. In turn, Pine Vale owns 55% of the issued shares of Beaver Exploration Australia N.L., 63.1% of the issued shares of Otter Exploration N.L. and 50.6% of the issued shares of Parkland & Properties Limited. Pine Vale is currently making a take-over offer to the other shareholders of Parkland. These Australian companies are collectively referred to as the "Pine Vale Group". Pine Vale Mines is principally a holding company while Beaver and Otter explore respectively for oil and gas and minerals. Parkland & Properties owns and operates a chain of caravan parks and engages in real estate development.

At the year end the Pine Vale Group had working capital, including marketable securities at market value, of $8,215,000 and long term debt of $2,204,000.

Woodside-Burmah Oil N.L.

Additional shares of Woodside-Burmah were purchased by the Pine Vale Group during the year. At the year end the Pine Vale Group's total holding exceeded 2.3 million fully paid and contributing shares with a market value of $5,281,000.

During 1973 Woodside-Burmah, utilizing up to four rigs, drilled thirteen wells on its off-shore oil and gas exploration concessions on the North West Shelf of Australia. Of these, three were step out wells in the Goodwin and Angel Fields, both of which have been proved as commercial fields. Three new oil discoveries were made and, although none of these indicated the presence of large oil reserves, they further confirmed the potential of the area for major oil discoveries in the future. In February, 1974 Woodside-Burmah announced that the first step had been taken towards obtaining production licenses in the North Rankin, Goodwin and Angel gas condensate fields. Revised total recoverable gas reserves for this Rankin Trend are now stated as 18 trillion cubic feet. During the first part of 1974 three wells have been completed, one of which produced a small non-commercial flow of oil. Another three wells are currently drilling, one of which has reported hydrocarbon shows.

Exploration

In 1973, more than $3,400,000 was expended by International Mogul and its subsidiaries in a world-wide search for minerals and oil and gas. Exploration activities were carried on in Australia, Canada, Greenland, Republic of Ireland, Italy, New Zealand, Papua, Portugal, Spain and the United States. Major programmes are continuing and new programmes are now in progress or planned."

INTERNATIONAL MOGUL MINES LIMITED
(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

December 31, 1973
(with comparative figures at December 31, 1972)

Assets	1973	1972
CURRENT ASSETS		
Cash and short-term deposits	$ 4,011,000	$ 5,032,000
Accounts receivable	2,075,000	1,980,000
Investment in The Grand Bahama Development Company, Limited, at net realizable value (note 14)	4,398,000	
Concentrates on hand and in process of settlement, at net realizable value	4,127,000	2,569,000
Marketable securities (note 2) (quoted market value 1973, $6,507,000; 1972, $9,782,000)	6,635,000	6,072,000
Inventories, at cost	1,464,000	1,457,000
Prepaid expenses and deposits	460,000	201,000
	23,170,000	17,311,000
INVESTMENTS (note 2)		
Shares with quoted market value (quoted market value 1973, $10,983,000; 1972, $8,447,000)	11,110,000	9,881,000
Shares without quoted market value and advances	3,812,000	3,311,000
	14,922,000	13,192,000
FIXED ASSETS (note 3)	13,966,000	11,749,000
INTERESTS IN GAS PRODUCTION (note 4)	3,835,000	
PROPERTY INTERESTS and DEFERRED EXPLORATION (note 5)		
Mining	5,027,000	3,422,000
Oil and gas	703,000	986,000
	5,730,000	4,408,000
DEFERRED PREPRODUCTION EXPENDITURES and other charges, amortized value (note 3)	5,587,000	6,107,000
	$67,210,000	$52,767,000

Approved by the Board:

"D. W. Knight", Director

"R. D. Bell," Director

Liabilities

	1973	1972
CURRENT LIABILITIES		
Bank loan, secured by certain investments	$ 4,520,000	$ 3,662,000
Dividends payable	416,000	
Accounts payable and accrued liabilities	3,558,000	2,519,000
Royalties payable	383,000	410,000
Income taxes payable	273,000	157,000
Current portion of long-term debt	2,129,000	190,000
	11,279,000	6,938,000
LONG-TERM DEBT (note 7)	2,263,000	929,000
INTERESTS OF MINORITY SHAREHOLDERS (note 8)	10,547,000	12,314,000

Shareholders' Equity

	1973	1972
CAPITAL STOCK (notes 9 and 10)	16,924,000	11,061,000
CONTRIBUTED SURPLUS (note 9)	2,069,000	2,028,000
RETAINED EARNINGS	24,128,000	19,497,000
	43,121,000	32,586,000
	$67,210,000	$52,767,000

Subsequent Events (note 14)

Auditors' Report

To the Shareholders of INTERNATIONAL MOGUL MINES LIMITED

We have examined the consolidated balance sheet of International Mogul Mines Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Gunn & Co.
Chartered Accountants

Toronto, Canada
February 28, 1974
(April 29, 1974 as to notes 4 and 6)

INTERNATIONAL MOGUL MINES LIMITED

Consolidated Statement of Income

Year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
REVENUE		
Production of concentrates	$21,460,000	$16,014,000
Sale of manufactured goods and services	2,104,000	870,000
	23,564,000	16,884,000
EXPENSES		
Cost of concentrate production	9,614,000	7,184,000
Cost of manufactured goods sold and services	1,755,000	665,000
Depreciation, depletion and amortization (note 3)	1,852,000	1,781,000
Royalty expense	412,000	394,000
Administrative and general expense	1,411,000	964,000
Interest on long-term debt	106,000	309,000
Exploration and property maintenance	1,014,000	103,000
Exploration expenditures and related costs on properties abandoned	865,000	72,000
	17,029,000	11,472,000
	6,535,000	5,412,000
OTHER INCOME (NET)		
Interest	316,000	141,000
Gain on currency revaluations	1,933,000	378,000
Gain on investments, marketable securities and fixed assets	636,000	257,000
	2,885,000	776,000
	9,420,000	6,188,000
Income taxes (note 6)	39,000	
Income before interests of minority shareholders and extraordinary items	9,381,000	6,188,000
Interests of minority shareholders in net income of subsidiaries	1,514,000	1,757,000
INCOME BEFORE EXTRAORDINARY ITEMS	7,867,000	4,431,000
Extraordinary items (note 11)	(1,850,000)	173,000
NET INCOME FOR THE YEAR	$ 6,017,000	$ 4,604,000
EARNINGS PER COMMON SHARE (after preference share dividends)		
Before extraordinary items	$2.93	$1.70
Net income for the year	$2.22	$1.77
Fully diluted earnings per share (note 12)		

Consolidated Statement of Retained Earnings

Year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
Retained earnings at beginning of year	$19,497,000	$14,893,000
Net income for the year	6,017,000	4,604,000
	25,514,000	19,497,000
Deduct		
Dividends		
Common Shares	652,000	
Preference Shares	225,000	
Prior years' income taxes (note 6)	102,000	
Preference Share issue expense	407,000	
	1,386,000	
RETAINED EARNINGS AT END OF YEAR	$24,128,000	$19,497,000

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
SOURCES OF WORKING CAPITAL		
From operations		
Income before interests of minority shareholders and extraordinary items	$ 9,381,000	$ 6,188,000
Charges against income not involving the use of working capital		
Depreciation, depletion and amortization	1,852,000	1,781,000
Other	96,000	55,000
	11,329,000	8,024,000
Extraordinary gain (losses) (note 11)	(1,850,000)	773,000
Net realizable value of investment in The Grand Bahama Development Company, Limited	4,398,000	
Cost of office building sold	764,000	
Cost of investments sold	1,203,000	1,144,000
Issue of preference and common shares for cash	6,007,000	
Issue of capital stock of a subsidiary to minority shareholders	230,000	
Increase in long-term debt	1,118,000	
Increase in working capital arising from acquisition of interest in Pine Vale Group		4,992,000
Incentive grants and other	323,000	123,000
	23,522,000	15,056,000
APPLICATIONS OF WORKING CAPITAL		
Investments in shares and advances	7,556,000	1,145,000
Interests in gas production	3,835,000	
Dividends of Mogul of Ireland Limited paid to a minority shareholder	2,242,000	
Additions to fixed assets	1,786,000	306,000
Property interests and deferred exploration	2,585,000	338,000
Additional acquisitions in the Pine Vale Group	1,454,000	
Reduction of long-term debt	892,000	6,569,000
Dividends on preference and common shares	877,000	
Preference share issue expense	407,000	
Deferred preproduction expenditures	165,000	34,000
Cost of preference shares purchased for cancellation	103,000	
Prior years income taxes	102,000	
Other		160,000
	22,004,000	8,552,000
Increase in working capital	1,518,000	6,504,000
Working capital at beginning of year	10,373,000	3,869,000
WORKING CAPITAL AT END OF YEAR	$11,891,000	$10,373,000

Notes to Consolidated Financial Statements

Year ended December 31, 1973

1. Basis of Consolidation

(*a*) *Subsidiaries Consolidated*

The consolidated statements include the accounts of all the Company's subsidiaries, the principal ones being:

	% Owned	Accounts Expressed in
Mogul of Ireland Limited	75	£ Sterling
Mogul Petroleum Corporation (note 4)	100	$ United States
I.M.M. (Trading) Pty. Limited	100	$ Australian
I.M.M. Ventures Limited	100	$ Canadian
Lorado of Bahamas, Limited	100	$ United States

(*b*) *Foreign Currency Translation*

In the accompanying financial statements, current assets, current liabilities and long-term debt have been translated at the prevailing rates of exchange as at December 31, 1973 and 1972 respectively. Other assets have generally been translated at the average rate of exchange for the years in which they were acquired. Income and expense items have been translated at the average rate of exchange during each year, except that depreciation, depletion and amortization are translated at the same rates as related assets.

(*c*) *I.M.M. (Trading) Pty. Limited and the Pine Vale Group*

At December 31, 1972 the consolidated balance sheet of I.M.M. (Trading) Pty. Limited included, on a fully consolidated basis, the accounts of an effectively controlled company, Pine Vale Mines Limited, and its subsidiaries (Pine Vale Group). Late in 1973 the Company increased its interest in the Pine Vale Group from 47.7% to 59.9% and the results of its operations have been reflected in the Consolidated Statement of Income commencing January 1, 1973.

During the year the Pine Vale Group increased its interest in Parkland & Properties Limited to 50.6% through a purchase of additional shares. The acquisition was accounted for as a purchase effective July 1, 1973 and accordingly the results of its operations have been included in the Consolidated Statement of Income commencing July 1, 1973.

Details of the additional acquisitions in the Pine Vale Group are as follows:

	1973	1972
Net assets acquired		
Proportion of net assets at book value	$1,781,000	$3,694,000
Adjustment to fair value applied as follows		
Marketable securities	(409,000)	543,000
Fixed assets	101,000	
	$1,473,000	$4,237,000
Consideration given		
Cash	$1,473,000	$2,461,000
Exchange of shares		1,776,000
	$1,473,000	$4,237,000

2. (*a*) Marketable Securities

The carrying value of marketable securities at December 31, 1973 exceeded the total quoted market value by $128,000. The total quoted value of all marketable securities held by the Company and its subsidiaries exceeds total cost by $6,000. On consolidation of the Pine Vale Group the accumulated excess of cost of acquisition of the Pine Vale shares over book value of $134,000 was attributed to the cost of the substantial investment of the Pine Vale Group in Woodside-Burmah Oil N.L. which shares are carried in marketable securities.

(*b*) Investments

Investments in shares are valued at cost or less depending upon the underlying value of the investment and its quoted market value. In some instances investments are valued in excess of quoted market value. Because of the number of shares held in certain companies the quoted market values are not necessarily indicative of the value of the investments, which may be more or less than indicated by market quotations.

3. Fixed Assets

	1973	1972
Summary		
In Ireland, at cost		
Mineral leases and rights	$ 1,806,000	$ 1,806,000
Land, buildings, plant and equipment	12,016,000	11,458,000
In Canada, at cost or less than cost		
Land, buildings, plant and equipment	1,328,000	2,256,000
In Australia, at cost		
Land, buildings, plant and equipment	4,771,000	1,152,000
	19,921,000	16,672,000
Less accumulated depreciation and depletion	5,955,000	4,923,000
	$13,966,000	$11,749,000

Depreciation, Depletion and Amortization Policy

Mogul of Ireland Limited provides for depreciation of fixed assets, depletion of mineral leases and rights and amortization of deferred preproduction expenditures and other charges on a straight line basis. These assets will be written off over the life of the mine, based on ore reserves established from time to time except for certain fixed assets whose life is estimated to be shorter than that of the mine.

Depreciation is provided on the Canadian and Australian fixed assets on a straight line basis at the following rates:

Buildings	2½% to 5%
Plant and equipment	5% to 33⅓%

4. Interests in Gas Production

In November and December the Company on behalf of its subsidiary, Mogul Petroleum Corporation (incorporated in 1973), acquired various royalty and working interests in a gas field in Hood County, in the State of Texas at a total cost of $3,730,000. The Company paid $1,630,000 cash for certain of these working interests and satisfied the balance of the purchase price by issuing two 9% notes amounting to $2,100,000 (note 7).

The costs attributable to these interests will be written off over the life of the field based on reserves established from time to time.

In December the Company acquired a royalty interest in a gas field in Hemphill County, in the State of Texas, for $1,175,000. This purchase price was paid in cash on January 4, 1974. On February 25, 1974 the Company acquired an additional royalty interest in the same field for $970,000 cash. Subsequently it was discovered that these royalty interests have a value significantly less than their purchase price. Legal Counsel has advised that the Company has a valid claim against the vendor of these royalty interests to recover this investment. Negotiations are continuing to settle this matter but, in the meantime, it has been decided to write down the investment in 1973 to the amount which it is now estimated will be recovered by royalty payments. A similar write down may be required in relation to the 1974 royalty acquisition. The write down in 1973 is $1,070,000 (note 11) and the potential write down in 1974 on the same basis is $882,000.

5. Property Interests and Deferred Exploration

The Company holds various other non-producing interests in mining, oil and gas properties and leases in various areas of the world. These interests are carried at acquisition cost together with the cost of direct exploration and development work thereon.

It is the Company's practice to defer the costs of these interests and carry them as an asset until the property, project or lease is abandoned, when the costs are written off to income.

6. Income Taxes

Late in March, 1974 the Irish Government introduced legislation to withdraw the twenty-year tax exemption period on mining profits earned by producing mining companies. This legislation has not yet been passed. It is proposed that taxes at a rate of approximately 50% will be payable on the taxable mining profits of Mogul of Ireland subsequent to April 5, 1974, being the date on which the tax exemption period is effectively removed. It is expected that no taxes will be paid on account of the 1974 fiscal year due to the availability of accelerated allowances under the proposed legislation.

During the year Mogul of Ireland was assessed for income and corporations profits taxes on interest income only. The charge to retained earnings of $102,000 represents the taxes applicable to interest earned in prior years.

The Company has no taxable income for 1973 and has undepreciated capital cost, exploration and development expenditures and other allowances available to offset future income.

7. Long-Term Debt

	1973	1972
Long-term debt consists of:		
8⅝% to 12% mortgages maturing 1976	$ 2,292,000	$ 734,000
9% notes payable maturing 1975	2,100,000	
Mortgages on building sold during the year		385,000
	4,392,000	1,119,000
Less current portion included in current liabilities	2,129,000	190,000
	$ 2,263,000	$ 929,000

Instalments on these mortgages and notes are due as follows:

1974	$2,129,000
1975	1,038,000
1976	1,225,000
	$4,392,000

8. Interests of Minority Shareholders

	1973	1972
Interests of minority shareholders are attributable as follows:		
Mogul of Ireland Limited	$ 4,801,000	$ 4,621,000
Pine Vale Group	5,448,000	7,385,000
Other subsidiaries	298,000	308,000
	$10,547,000	$12,314,000

9. Capital Stock

Authorized:

992,700 First Preference Shares, par value $20 each
4,000,125 Common Shares without par value

Issued:	No. of shares	Par Value
First Preference Shares Series A		
Issued during year, for cash	300,000	$ 6,000,000
Converted to 125 Common Shares	(100)	(2,000)
Purchased for cancellation	(7,200)	(144,000)
Balance at end of year	292,700	$ 5,854,000

Common Shares:	No. of Shares	Consideration
Balance at beginning of year	2,607,112	$11,061,000
Issued to employees, for cash	860	7,000
Issued on conversion of 100 Preference Shares Series A	125	2,000
Balance at end of year	2,608,097	$11,070,000
		$16,924,000

On April 26, 1973 the Articles of the Company were amended to increase its authorized capital by creating 1,000,000 First Preference Shares with a par value of $20 each, issuable in series.

On May 17, 1973 the Company issued 300,000 shares as the first series of preference shares, being designated as 6% Cumulative Redeemable Convertible First Preference Shares Series A, for $6,000,000 cash.

The Series A Shares are convertible into Common Shares of the Company as follows:

(a) up to April 1, 1978 — 1¼ Common Shares for each Series A Share

(b) thereafter to April 1, 1983 — 1 1/9 Common Shares for each Series A Share

The Company is required, in each of the twelve month periods from April 1, 1974 to 1977 inclusive, to make all reasonable efforts to purchase for cancellation in the open market that number of shares which may be purchased out of the lesser of $120,000 or 10% of the consolidated net earnings available for dividends for the immediately preceding fiscal year after deducting dividends paid in that year on the Series A Shares, and in each twelve month period thereafter that number which may be purchased out of the lesser of $300,000 or 10% of the consolidated net earnings after Series A dividends.

During 1973 the Company purchased for cancellation 7,200 Series A Shares for $103,000, being less than their par value. The difference of $41,000 has been credited to contributed surplus. The purchase amount will reduce the first year's purchase requirement commencing April 1, 1974.

10. Employee Stock Options

The following employee stock options were outstanding at December 31, 1973:

Year of grant	Option price per Common Share	No. of Common Shares	Expiry Date
1971	$ 7.50	9,640	October 1, 1976
1973	$12.50	80,800	February 12, 1978
		90,440	

During the year 860 Common Shares were issued at a price of $7.50 per share under the employee incentive option plan. All options granted under the plan were at a price of not less than 90% of the market value of the Common Shares at the date of grant. The options are in good standing for five years from the date of grant, exercisable on a cumulative basis as to 20% of the shares in any one year.

11. Extraordinary Items

	1973	1972
Net realized gain on investment		$773,000
Write down of investment in The Grand Bahama Development Company, Limited to net realizable value	$ (780,000)	
Write down of royalty interest in Hemphill County, Texas, to estimated realizable value (note 4)	(1,070,000)	
Allowance for decline in value of some venture capital projects		(600,000)
As shown on consolidated statement of income	$(1,850,000)	$173,000

12. Fully Diluted Earnings Per Common Share

Fully diluted earnings per share show the maximum dilution of current earnings which potential conversions and exercises (see notes 9 and 10) would have caused had they occurred during the current year as follows:

	1973	1972
Before extraordinary items	$2.70	$1.66
Net income for the year	$2.06	$1.73

13. Other Information

Direct remuneration of the Company's directors and senior officers from the Company and its subsidiaries was $407,000 ($352,000 in 1972).

14. Subsequent Events

(a) On February 15, 1974 the Company sold its investment in The Grand Bahama Development Company, Limited for $4,398,000. The resulting loss of $780,000 on the sale is provided for in the consolidated statement of income for the year as an extraordinary item. At December 31, 1972 the investment was included in shares with quoted market value.

(b) On January 2, 1974 the Company purchased an office building in downtown Toronto for $4,120,000. The purchase price was satisfied by the assumption of mortgages in the principal amount of $3,120,000 and $1,000,000 cash.

(c) The Company has guaranteed a bank loan to Mindamar Energy Resources Limited of up to $2,500,000 for a period of up to three years from February 12, 1974. This guarantee is secured by a mortgage on gas interests held by Mindamar in the State of Texas.

GCL GRAPHIC COMMUNICATIONS LIMITED

Excerpts from 1973 Annual Report — with Consolidated Financial Statements

General Comments

"It is a pleasure to report that the Corporation has made very gratifying progress. Sales revenues for the six month period have risen dramatically, and the Corporation is now able to report a profit in its overall operations.

A measure of the progress of the Corporation is the increase in sales revenues from $101,656 in the twelve months ended June 30, 1972, to $980,135 in the twelve months ended June 30, 1973, to $8,082,830 in the six months ended December 31, 1973 and the dramatic change from a loss position in the first two periods to a substantial profit of $540,272 in the most recent period. Earnings for the six months ended December 31, 1973 amounted to $0.31 per share, compared to a loss of $1.81 per share for the year ended June 30, 1973.

The events which have led to this very satisfying performance have previously been documented to the Shareholders. However, in order to ensure that all present Shareholders are fully informed of the events which took place during the six month period ended December 31, 1973, the following is a summary of the events:

1. GCL purchased from Interscan Limited all the shares of the Interscan Group of Companies, which included two operating companies, Interscan Data Systems (U.K.) Ltd., in the United Kingdom, and Interscan GmbH in West Germany.

2. An agreement to distribute Dex equipment in the United Kingdom was negotiated with the manufacturer, (Graphic Sciences, Inc.).

3. A new Company, Interscan-Dex Limited, was formed to distribute Dex equipment in the United Kingdom. This Company is 51 percent owned by the Corporation and 49 per cent owned by Coldstream Mines Limited.

4. Financing for the Corporation and Interscan-Dex Limited of up to $2,600,000 is being provided by Coldstream.

5. The foregoing purchase was made by the issue of 1,311,353 Treasury shares to Interscan Limited, and by the Corporation guaranteeing a $1,500,000, 7 per cent interest bearing debt of the Interscan Group to Interscan Limited. ($1,000,000 of this may be converted into GCL shares at $3.00 per share.)

6. Coldstream was instrumental in arranging for the Corporation substantial bridge financing, required to purchase and deliver large orders for Dex equipment placed by the Trans-Canada Telephone System, which markets Dex in Canada under its own trade name of FAXcom.

Presently, the Corporation's main distributorships are:

(a) Dex facsimile transmitter/receivers, (manufactured by Graphic Sciences, Inc. of Danbury, Connecticut), distributed in Canada and in the United Kingdom.

(b) System 2100 Key-to-Disc Computer input device (manufactured by General Computer Systems Inc. of Dallas, Texas), distributed in the United Kingdom and in West Germany.

(c) Scan-Data, an optical character recognition data entry system, (manufactured by Scan-Data Corporation of Norristown, Pennsylvania), distributed in the United Kingdom and West Germany.

Both Sales and Service operations are carried on through offices in the following cities:

CANADA — Toronto, Ottawa, Montreal, Vancouver

UNITED KINGDOM — London, Manchester, Edinburgh

WEST GERMANY — Frankfurt

The Corporation and its subsidiaries now employ in excess of 200 persons.

It is significant that your Corporation's considerable experience in multi-media communications in the United Kingdom is generating a synergism which is accelerating the successful marketing of all the products distributed by the U.K. Company. The resulting ability to market the Dex equipment as part of a total communication system is a fundamental strength of your Corporation.

The purchase of the Interscan Group of Companies has been of tremendous importance in the rapid growth of the Corporation. Needed financing was acquired, substantial additional sales revenues have been added, and above all, a strong, well-financed major Shareholder is working actively with Management. On a consolidated basis the Corporation is reporting a profit for the fiscal period covered by this report. This profit has been generated by the European operations of the Interscan Group, under the able direction of Gordon Skinner, Managing Director. The majority of the business of the Interscan Group has been with financial institutions and with government. During the recent economic and energy crisis in the United Kingdom, Management detected no weakening of requirements in either of those two fields. On the contrary, both of these categories must carry on usual data processing operations, and in the case of government indications point towards more control and more data reporting requirements. Management is confident of continuing the current high level of business in Europe which it has been able to secure over the last two years.

However, it is in the development of the facsimile industry that your Corporation looks for its greatest growth. Management believes that the potential requirements for equipment which can transmit hard-copy electronically over ordinary telephone lines throughout the world, quickly and accurately, is practically unlimited. We believe the Dex line of facsimile products is the finest and most technologically advanced on the market today, and latest announcements from the manufacturer indicate that this leadership position will be maintained. With exclusive distributorships in Canada and the United Kingdom, your Corporation is actively marketing in two of the leading countries in telecommunications usage in the world."

Auditors' Report

To the Shareholders of
GCL Graphic Communications Limited

We have examined the consolidated balance sheet of GCL Graphic Communications Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of income, deficit and changes in financial position for the six months ended December 31, 1973. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 29, 1974

THORNE GUNN & CO.
Chartered Accountants

GCL Graphic Communications Limited
(Incorporated under the laws of Ontario)
and subsidiary companies

Consolidated Balance Sheet

DECEMBER 31, 1973
(with comparative figures at June 30, 1973)
(Expressed in Canadian Dollars)

	December 31, 1973	June 30, 1973
ASSETS		
Current assets		
Cash and short-term bank deposits	$ 671,853	$ 69,225
Accounts receivable	5,101,953	478,641
Inventories (note 3)	1,492,098	125,290
	7,265,904	673,156
Fixed assets (note 4)	1,357,624	853,129
Other assets		
Deposits as surety on guarantees (note 5)	105,329	
Deferred development and pre-operating expenses (note 9)	125,751	
	231,080	
Goodwill (note 1)	3,784,629	
	$12,639,237	$ 1,526,285
LIABILITIES		
Current liabilities		
Bank advances, secured (note 6)	$ 4,329,007	$ 382,863
Accounts payable and accrued liabilities	2,393,933	216,413
Customers' deposits	135,291	
Current portion of long-term debt	61,789	61,789
8% Convertible debenture due on demand		100,000
	6,920,020	761,065
Long-term debt		
Due to parent company (note 1)		
Convertible advances	1,000,000	
Other advances	1,297,718	820,470
7% notes payable (unsecured) payable in semi-annual principal instalments, maturing in 1975	98,703	129,597
	2,396,421	950,067
Less amount due within one year included in current liabilities	61,789	61,789
	2,334,632	888,278
Minority interest	21,387	
SHAREHOLDERS' EQUITY		
Capital stock (notes 1 and 7)		
Authorized—5,000,000 shares without par value		
Issued— 1,736,353 shares (June 30, 1973, 425,000 shares)	4,250,744	1,300,200
Deficit	887,546	1,423,258
	3,363,198	(123,058)
	$12,639,237	$ 1,526,285

Approved by the Board:

"C. G. Green," Director

"R. D. Bell," Director

Consolidated Statement of Income

(Expressed in Canadian Dollars)

	Six months ended December 31, 1973	Year ended June 30, 1973
Revenue		
Sale and rental income, maintenance and other income	$ 8,082,830	$ 980,135
Expenses		
Cost of sales, supplies, maintenance, selling, general and administrative expenses	7,206,675	1,225,070
Interest on long-term debt	112,267	7,362
Depreciation and amortization (note 4)	161,921	156,376
Loss on currency revaluation	51,115	
	7,531,978	1,388,808
Income (loss) before income taxes, interest of minority shareholder and extraordinary items	550,852	(408,673)
Income taxes (note 8)	261,286	
	289,566	(408,673)
Interest of minority shareholder	9,137	
Income (loss) before extraordinary items	280,429	(408,673)
Extraordinary items		
Income tax reductions arising from application of losses of prior years (note 8)	259,843	
Write-down of graphic communication equipment (note 12)		(362,582)
Net income (loss) for the period	$ 540,272	$ (771,255)
Earnings (loss) per share		
Before extraordinary items	$0.16	$(0.96)
Net income (loss) for the period	$0.31	$(1.81)
Fully diluted earnings per share (see note 10)		

Consolidated Statement of Deficit

(Expressed in Canadian Dollars)

	Six months ended December 31, 1973	Year ended June 30, 1973
Deficit at beginning of period	$ 1,423,258	$ 539,711
Net income (loss) for the period	540,272	(771,255)
	882,986	1,310,966
Organization expenses written off	4,560	
Expenses of proposed underwriting written off		112,292
Deficit at end of period	$ 887,546	$ 1,423,258

Consolidated Statement of Changes in Financial Position

(Expressed in Canadian Dollars)

	Six months ended December 31, 1973	Year ended June 30, 1973
Sources of working capital		
Operations		
Net income for the period	$ 540,272	
Charges against income not involving the use of working capital		
Depreciation and amortization	161,921	
Interest of minority shareholder	9,137	
	711,330	
Shares issued to acquire the Interscan Group	2,950,544	
Issue of capital stock of a subsidiary to minority shareholder	12,250	
Increase in long-term debt	159,115	$ 844,545
	3,833,239	844,545
Applications of working capital		
Operations		
Loss before extraordinary item		408,673
Depreciation and amortization not involving the use of working capital		(156,376)
		252,297
Cost of acquisition of the Interscan Group less working capital acquired of $364,010	2,586,534	
Fixed assets	397,896	424,196
Reduction in long-term debt	211,455	54,776
Deferred development and pre-operating expenses	125,751	
Deposits as surety on guarantees	73,250	
Organization expenses	4,560	
Expenses of proposed underwriting not proceeded with		93,133
	3,399,446	824,402
Increase in working capital	433,793	20,143
Working capital deficiency at beginning of period	87,909	108,052
Working capital (deficiency) at end of period	$ 345,884	$ (87,909)

Notes to Consolidated Financial Statements

December 31, 1973

(Expressed in Canadian Dollars)

1. BASIS OF CONSOLIDATION

(a) The consolidated financial statements include the accounts of the Interscan Group from July 1, 1973.

The Company incorporated two subsidiary companies during the period, as follows:

Graphic Communications U.K. Holdings Limited 100% owned

Interscan-Dex Limited 51% owned

(b) The Company has changed its fiscal year end from June 30th to December 31st.

(c) Translation of the accounts of foreign subsidiaries is as follows:

(1) Current assets and current liabilities, at the prevailing rates of exchange as at the balance sheet date.

(2) Fixed and other assets, income and expenses, at the average rates of exchange for the period that the assets were acquired and the income earned, except for certain transactions where the actual known cost in Canadian Dollars has been used.

(d) On June 29, 1973, the Company signed an agreement with Coldstream Mines Limited (Coldstream) and Interscan Limited (Interscan) which provided as follows:

(1) The Company issued 1,311,353 shares to Interscan valued at $2,950,544 representing a 61% fully diluted interest in the Company.

(2) The Company acquired all of the issued and outstanding shares of the following companies (Interscan Group) from Interscan:

Intercontinental Data Systems Limited

Interscan Data Systems, A.G., ZUG

Interscan Data Systems (U.K.) Ltd.

Interscan GmbH

(3) The Company guaranteed a $1,500,000 7% debt of the Interscan Group of which $1,000,000 may be converted into shares of the Company at $3 per share.

(4) Coldstream provide, directly and indirectly, financing up to $1,600,000 for the Canadian operations of the Company and up to $1,000,000 for the distribution of graphic communications equipment in the United Kingdom through Interscan Dex Limited a company owned 51% by the Company and 49% by Coldstream.

Details of the acquisition of the Interscan Group are as follows:

Consideration given	
Common shares	$2,950,544
Excess of liabilities over book value of assets acquired	$ 834,085
Goodwill	3,784,629
	$2,950,544

2. DISTRIBUTORSHIP AND FRANCHISE AGREEMENTS

(a) Graphic Communication Equipment

Pursuant to agreements entered into on June 29, 1973 and August 1, 1973, the Company acquired the exclusive rights to distribute in Ireland, United Kingdom and Canada graphic communication equipment manufactured by Graphic Sciences, Inc.

(b) Computer Input Equipment

The Company holds distribution franchises in respect of products of Scan-Data Corporation, General Computer Systems Inc., Almex A.B. and Optical Scanning Corporation to market their computer input equipment in certain Western European countries.

3. INVENTORIES

	December 31, 1973	June 30, 1973
Computer input equipment	$ 342,842	
Graphic communications equipment	401,952	$ 17,907
Parts and supplies	747,304	107,383
	$1,492,098	$125,290

The inventories are valued at the lower of cost (determined on a first-in first-out basis) and replacement cost.

4. FIXED ASSETS

(a) Summary

	December 31, 1973	June 30, 1973
Graphic communication equipment	$1,399,659	$1,039,576
Computer input equipment	302,127	
Automotive equipment	39,525	
Office equipment	84,608	3,340
Leasehold improvements	2,054	1,731
	1,827,973	1,044,647
Less accumulated depreciation	470,349	191,518
	$1,357,624	$ 853,129

Graphic communication equipment is valued at cost less amounts written down (see note 12). Computer input equipment, automotive equipment, office equipment and leasehold improvements are valued at cost.

(b) Depreciation Policy

Depreciation of graphic communication and office equipment is provided at 20% per annum on the reducing balance basis with depreciation on the graphic communication equipment commencing from the month the unit is placed in service. Leasehold improvements are depreciated over the period of the lease.

Other fixed assets are depreciated on a straight line basis at the following rates:

Automotive equipment	25%
Computer input equipment	15% to 20%
Other equipment and furniture	10% to 33⅓%

5. DEPOSITS AS SURETY ON GUARANTEES

The deposits are with a leasing company to secure lease payments by customers in respect of systems sold to them by a subsidiary. The deposits will be repaid over periods commencing not later than August, 1977.

6. BANK ADVANCES

Bank advances are secured by assignment of the accounts receivable and hypothecation of the inventories of the Company and its subsidiaries, together with guarantees of Coldstream Mines Limited.

7. CAPITAL STOCK

On October 12, 1973 the directors cancelled all employee stock options then outstanding. Effective November 1, 1973 the directors granted new stock options to four key employees covering the purchase of 16,000 shares at a price of $2.25 per share exercisable on or before October 31, 1978. These options were outstanding at December 31, 1973.

On November 1, 1973 the directors authorized under a share purchase plan the issuance of 36,000 shares at a price of $2.25 per share to two key employees. Subsequent to December 31, 1973 the 36,000 shares were acquired by the two employees.

Outstanding share purchase warrants are exercisable as follows:

Number of warrants	Number of shares to be issued	Exercisable price per share	On or before
200,000	360,000	$3.03	January 6, 1977
20,000	20,000	$6.00	January 6, 1977

8. INCOME TAXES

Loss carry-forwards for income tax purposes, which may be applied in reduction of future taxable incomes, are as follows:

Canada	$ 666,000
United Kingdom	378,000
Germany	592,000
	$1,636,000

The Company has recorded depreciation in the accounts in excess of capital cost allowance claimed for Canadian income tax purposes of approximately $680,000.

The tax effect of the above items has not been recorded in the accounts.

9. DEFERRED PRE-OPERATING EXPENSES

All expenses incurred from incorporation of the 51% subsidiary company Interscan-Dex Limited on June 18, 1973 have been deferred as they relate to the organization of the company and planning and development of the company's operations in the United Kingdom.

These expenses will be written off equally over three years commencing January 1, 1974.

10. FULLY DILUTED EARNINGS

Fully diluted earnings per share for the six months ended December 31, 1973 show the maximum dilution of current earnings which potential conversions and exercises (see notes 1 and 7) would have caused had they occurred during the current period as follows:

Before extraordinary item	$0.14
Net income for the period	$0.25

The imputed earnings after income tax arising from conversion and application of the proceeds from options and warrants exercised is $48,000.

11. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers as defined by The Business Corporations Act amounted to $72,400 (June, 1973 $92,900).

12. WRITE-DOWN OF GRAPHIC COMMUNICATION

As a result of the Trans Canada Telephone Systems sale agreement of May 25, 1973 the Company negotiated with Graphic Sciences, Inc. substantially lower purchase prices per unit for all of the Company's graphic communication equipment requirements.

All graphic communication equipment owned at June 30, 1973, regardless of the original cost, has been valued at the new costs. Accumulated depreciation at June 30, 1973 was recalculated using the revised machine costs. The write-down of graphic communication equipment resulting from this revaluation was shown in the statement of income for the year ended June 30, 1973 as an extraordinary item amounting to $362,582.

General Comments

Consolidated net income for the year amounted to $136,319 or eight cents per share. In 1972 consolidated net income was $259,287 or fourteen cents per share. Long-term debt was again reduced substantially, resulting in lower interest charges.

Spotless Cleaners Limited enjoyed another successful year, and despite rising costs and supply shortages they contributed substantially to results.

Bahamas Enterprises Trading Companies Overseas Limited (BETCO) again has declared a modest dividend. However, the trend of perfume sales through the Caribbean and the Bahamas is showing a decrease and the management of BETCO is exploring alternate products for distribution in the market.

Solomon's Mines Limited reflected a loss as to the 31st May, 1973, the end of its fiscal year. Since that report a slow turn-around has resulted in its operation at breakeven. A profit for this year is forecast.

Crystal Seas Enterprises Limited in which the company has a twenty-five percent interest, operates Lafayette Department Store which opened in march 1973. Unfortunately, this operation has been plagued with problems from the start and has yet to attain a break-even position. The cost of this investment has been written off.

1973 did not come up to the expectation of management. Devaluation of many world currencies, particularly the United States dollar with which the Bahamian dollar is fixed, plus the increase of Bahamas emergency tax brought chaos to the retail perfume trade which represents a substantial portion of our turnover. In order to maintain an all-important price differential on perfume for tourists we have been forced to absorb many of these increased costs.

Christmas trade was hurt by delayed delivery of goods out of Europe. To these factors, we must also add the fact that Freeport experienced tourist business well below that forecast.

Management does not anticipate any worsening of the situation, or a major turn-around during the coming year. With this in mind management proposes a consolidation of our operation both by heavier concentration on the resident market and by cutbacks in overheads and inventories.

Directors

R. D. Bell, C.A., *Toronto, Ontario*
Vice-President, Finance of International Mogul Mines Limited

P. S. Cross, B.A.Sc., *Toronto, Ontario*
Vice-President, Mining Operations of International Mogul Mines Limited

D. W. Knight, *Toronto, Ontario*
Chairman of the Board and Chief Executive Officer of International Mogul Mines Limited

F. C. Knight, B.Sc., *Toronto, Ontario*
Mining Engineer employed by International Mogul Mines Limited

A. B. Lash, *Toronto, Ontario*
Manager of Computer Operations, Draper Dobie & Company Limited

G. D. Pattison, C.A., *Aurora, Ontario*
Vice-President and Secretary of International Mogul Mines Limited

S. A. Perry, F.C.I.S., *Toronto, Ontario*
Honorary Chairman of the Board of International Mogul Mines Limited

F. Gerald Townsend, F.C.A., *Mississauga, Ontario*
President and Chief Operating Officer of International Mogul Mines Limited

W. W. Weber, Ph.D., *Toronto, Ontario*
Vice-President, Exploration of International Mogul Mines Limited

Officers

D. W. Knight, *Chairman of the Board*

F. Gerald Townsend, F.C.A., *President*

G. D. Pattison, C.A., *Secretary*

R. D. Bell, CA., *Treasurer*

D. A. Humby, C.A., *Assistant Secretary*

W. R. D. Maclean, C.A., *Assistant Treasurer*

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Printed in Canad